HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA

Canada Mortgage and Housing Corporation

www.cmhc.ca

Issue: Spring 2005

NEW HOME MARKET

Home starts lower in 2005

New home construction, though strong will slow in 2005. Home starts will total 1,620 this year - down nine per cent from last year. While lower, the number of foundations laid will be well above the historical average.

Favourable demographic and economic conditions alongside Niagara's tight resale market will support a high level of new home construction. Baby boomers are in their prime move-up buying years. Strong job gains among boomers together with low financing costs and sizeable equity gains over the last few years will provide an ample pool of able and willing buyers.

Single detached starts will total 1,200 this year, down from the 14 year high of 1,292 last year. Rising average new home prices and slightly higher mortgage rates will have a dampening effect on starts. Income gains are not expected to offset the increase in monthly carrying costs.

As the price of new single-detached homes trend higher, buyers will look for more affordable ground oriented housing. Multiple family home starts will be down 14 per cent from 2004, partly due to a unique large 100 unit project which bumped up last years numbers. Construction will begin on a total of 420 semi-detached, townhouses and apartments this year.

Looking ahead to 2006, slightly higher mortgage rates and more choice in the resale market will cause housing starts to moderate. Home starts will revert back to levels more in-line with underlying long term demographic demand.

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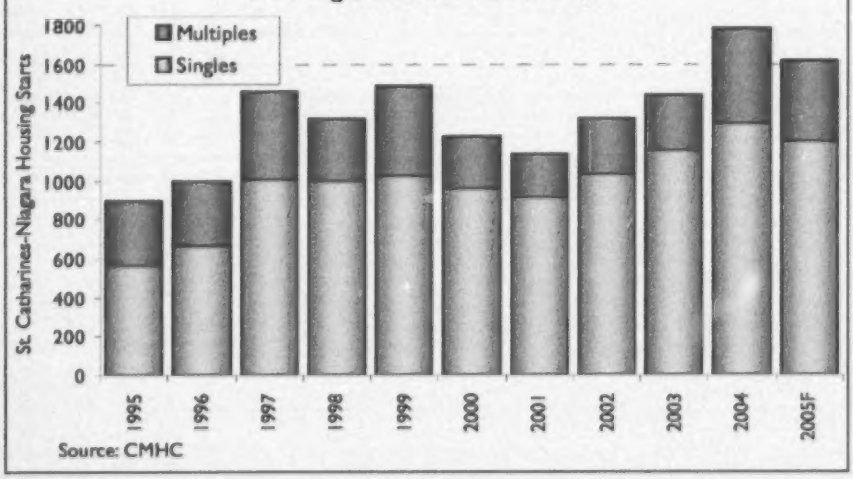

Source: CMHC

Milan Gnjec - Market Analyst - CMHC
Tel: (416) 218-3424 Fax: (416) 218-3314
mgnjec@cmhc.ca

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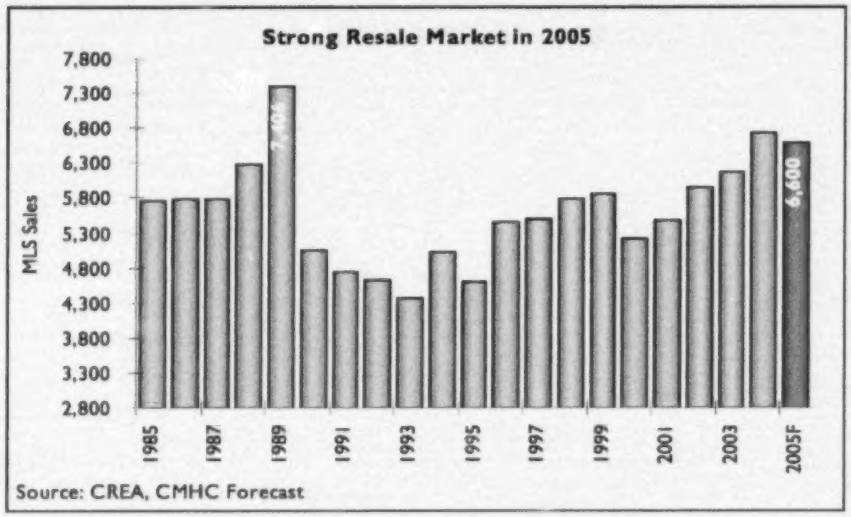
RESALE MARKET

Another strong performance in 2005

Last year was a very strong year for the resale market. MLS® sales reached their second highest level on record. The average price of a home increased more than 10 per cent. We expect more of the same in 2005.

MLS® sales are forecast to fall just shy of last year's 15-year high. At 6,600, MLS® sales look to be reaching more of a plateau than actually declining. Low mortgage rates, a high employment rate and more choice of homes in the resale market will help keep sales at very high levels.

The supply of new listings has been very low for half a decade and the MLS® data is showing signs of only a modest increase. Significant equity gains over the last three years will entice some current homeowners to move-up and put their current home on the market. The large number of homes under construction will also eventually boost new listings. Some of the homes under construction were purchased by homeowners. Upon completion, as buyers take occupancy, they will place existing homes up for sale.

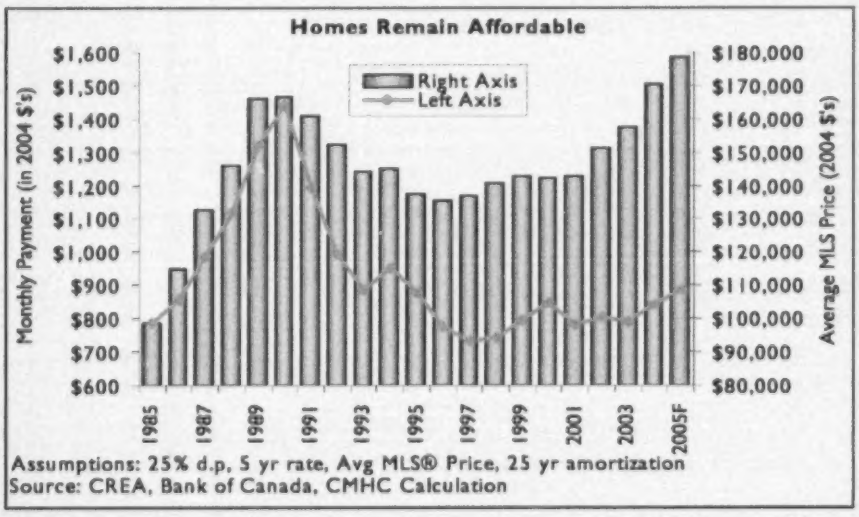


The resale market has been very tight over the last few years and will remain tight, but a little less so, in 2005. Some of the price pressure will be relieved by a rising supply of new listings. The sales-to-new listings ratio, a measure of market state, will move lower, but will remain in sellers territory for the rest of the year.

Home price growth, at seven per cent, will be more than triple the rate of inflation in 2005. The increase in house prices will be slightly less than the double-digit prices gains witnessed last year.

Home ownership will remain affordable. Although home prices will reach record levels (in inflation adjusted terms), mortgage rates will be rising from their lowest levels in decades. Monthly mortgage payments (principal and interest) will not stray too far from long term historical lows.

Looking forward to 2006, MLS® sales will move lower as slightly higher mortgage rates and rising home prices put pressure on mortgage carrying costs. A better balance between supply and demand in the resale market will translate into more moderate increases in house prices.



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ECONOMIC TRENDS

Mortgage rates will remain low

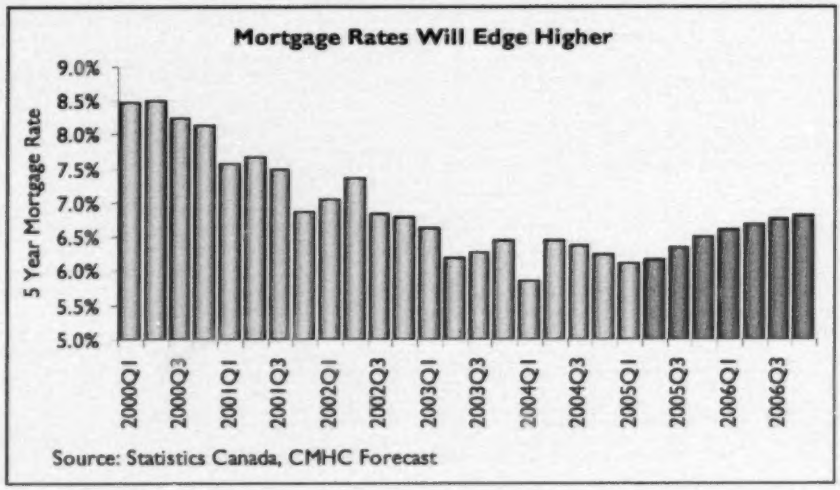
Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005.

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005-06. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rates increases in 2005-06.

Job Market Improves

Jobs are a key component of housing demand. Although job growth has not been spectacular over the last few years, there are nevertheless 20 per cent more people working today than there was ten years ago. The high employment rate in the region suggests that housing demand will remain strong.



The rising Canadian dollar has been a concern to the manufacturing and tourism sectors. Since January 2003 the Canadian dollar has appreciated more than 25 per cent relative to the US dollar. Recent data suggests that both the manufacturing and tourism sectors, key sectors of the local economy, have been able to cope with the rise of the dollar. The manufacturing sector has added 5,700 jobs since March 2004. The tourism sector has generated 2,800 new jobs over the same period.

DEMOGRAPHIC TRENDS

A major component of long-term growth in housing demand is the growth rate of the local population. With an aging population base in the Niagara region, growth in population can only come through migration into the region. Migration is critical to the future growth of the local population and ultimately growth in future housing demand.

Most migrants that move into the Niagara region come from Toronto. History has shown that there is a strong correlation between house prices in Toronto and the number of migrants into the Niagara region. As the Toronto housing market becomes more expensive people begin expanding their search to other parts of the Golden Horseshoe. With prices in Toronto expected to continue to rise, look for migration into the Niagara region to remain strong.

ST. CATHARINES-NIAGARA CENSUS METROPOLITAN AREA
Forecast as of April 2005

	2000	2001	2002	2003	2004	2005F	% Change
NEW HOME MARKET							
Housing Starts							
Single-Detached	962	916	1,032	1,154	1,292	1,200	-7.1%
Multiples	268	218	285	290	489	420	-14.1%
Total Housing Starts	**1,230**	**1,134**	**1,317**	**1,444**	**1,781**	**1,620**	**-9.0%**
NHPI Annual % Change	4.2%	2.3%	1.9%	4.9%	6.9%	7.5%	
RESALE MARKET							
MLS® Sales	5,207	5,488	5,951	6,174	6,723	6,600	-1.8%
MLS® New Listings	9,310	9,221	8,828	9,270	10,000	10,500	5.0%
Sales-to-New Listings Ratio	55.9%	59.5%	67.4%	66.6%	67.2%	62.9%	
MLS® Average Price	$ 129,390	$ 133,715	$ 144,720	$154,550	$170,425	$182,000	6.8%
RENTAL MARKET							
Apartment Vacancy Rate	2.6%	1.9%	2.4%	2.7%	2.6%	2.2%	
Average Rent (2 bedroom)	$ 653	$ 680	$ 695	$704	$722	$733	1.5%
ECONOMIC INDICATORS							
Mortgage rate (1 year)	7.85%	6.14%	5.17%	4.84%	4.59%	5.01%	
Mortgage rate (3 year)	8.17%	6.88%	6.28%	5.82%	5.65%	5.81%	
Mortgage rate (5 year)	8.35%	7.40%	7.02%	6.45%	6.23%	6.28%	
Job Growth	7.9%	-2.1%	1.0%	1.9%	-2.3%	5.4%	
Unemployment Rate	6.0%	6.3%	7.4%	6.8%	7.4%	6.8%	
Net Migration	2,232	1,515	1,422	1,228	1,500	1,650	10.0%

Sources: Canadian Real Estate Association, Statistics Canada, Bank of Canada, CMHC Forecast

Housing Market Outlook is CMHC's forecast for new home and resale markets. Issues are released in the Spring and Fall of each year. For more information contact Milan Gnjec at (416) 218-3424 or mgnjec@cmhc-schl.gc.ca

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